



**Employees' Retirement Board of Rhode Island**  
**Monthly Meeting Minutes**  
**Wednesday, June 8, 2016**  
**9:00 a.m.**  
**2<sup>nd</sup> Floor Conference Room, 50 Service Avenue**

The Monthly Meeting of the Retirement Board was called to order at 9:10 a.m. Wednesday, June 8, 2016, in the 2<sup>nd</sup> Floor Conference Room, 50 Service Avenue, Warwick, RI.

## **I. Roll Call of Members**

The following members were present at roll call: Treasurer Seth Magaziner; Vice Chair William B. Finelli, Daniel L. Beardsley; Mark A. Carruolo; Andrew Marcaccio, Esq., designee for Michael DiBiase; Paul L. Dion, Ph.D.; Thomas M. Lambert; John P. Maguire; Joanne A. Matisewski; Thomas A. Mullaney; Claire M. Newell; Jean Rondeau and Dr. Laura Shawhughes.

Also in attendance: Frank J. Karpinski, ERSRI Executive Director and Attorney Michael P. Robinson, Board Counsel.

Recognizing a quorum, Treasurer Magaziner called the meeting to order.

## **II. Approval of Minutes**

Mr. Dion noted under the Committee Report on page 10 of the Disability Subcommittee section, he had *abstained* from the vote on numbers 2, 3, 4, 7, 8 and 9 and not *recused* himself from the vote on these numbers. The May 2016 Board minutes will be amended to reflect the correction from Mr. Dion.

On a motion by Jean Rondeau and seconded by Claire M. Newell, it was unanimously

**VOTED: To approve the amended regular session minutes of the May 11, 2016 meeting of the Retirement Board of the Employees' Retirement System of Rhode Island.**

## **III. Chairperson's Report**

Treasurer Magaziner welcomed and congratulated new Board Member Dr. Laura Shawhughes to the Retirement Board. He said Dr. Shawhughes is the Treasurer's appointee and replaces Mr. Gary Alger, Esq.

Treasurer Magaziner apprised the Board of the process that the State Investment Commission (SIC) is working on regarding the asset/liability study. The Treasurer said the last asset/liability study of the SIC was done in 2011 noting that typically such a study is done every 3-5 years. He added the ultimate goal of the study is to determine what the optimal investment strategy should be for the Retirement System relative to its liabilities. Treasurer Magaziner said the SIC began planning the study at their May meeting and will work during the summer to expedite the process to conclude by early Fall.

Treasurer Magaziner said the SIC would be looking at the risk profile of the system and the risk tolerance (level of variability in returns the System can sustain). He said the Board's input on how much budget uncertainty is acceptable from the employer's perspective is critical in determining the optimal investment portfolio.

Treasurer Magaziner apprised the Board there will be a joint meeting between the Board and the SIC on July 13, 2016 following the Board meeting. He said after a consensus of risk tolerance for the system has been determined, then the SIC will determine the expected levels of return and risk for the different types of asset classes. In conclusion, the Treasurer said how important it is that both Boards communicate with each other, and said both he and Chief Investment Officer Fink will keep the Board apprised on a monthly basis of the SIC's discussions and progress.

Mr. Beardsley asked if the SIC is looking at the expected return vs. risk of volatility, will they be ready if the expectations are not met to make any changes in investment management? The Treasurer said if the result of the study recommends a similar asset allocation as the current one, there may be slight changes regarding the fund's managers. However, if significant changes are recommended in the asset allocation study, a larger turnover of managers would be necessary.

Mr. Dion asked Treasurer Magaziner if there has been any consideration given to having a Board member (preferably an elected member vs. an appointee) be part of the membership on the SIC Board. He offered that the SIC meetings are public meetings so one can attend. The Treasurer said there could be some consideration given to possible legislation to strengthen fund governance in the future.

Lastly, Treasurer Magaziner apprised the Board that the budget came out last night, and the proposed budget from the House Finance Committee is slightly different from the budget approved by the Board, and did not include the Board's recommendation for an accounting position and a customer service manager. The Treasurer noted that neither position has any impact on the general revenue to the State, especially the accounting position which was included at the recommendation of the General Assembly's Auditor General. The Treasurer said he will look into further changes to the budget to include the positions before it reaches the full floor.

The Treasurer said there is a bill that is scheduled for tomorrow by the Senate Finance Committee that would expand the Teachers Survivor Benefit (TSB), which is about 145% funded. He said the bill is moving along, although what concerns him is that there has not been any actuarial study to see the fiscal impact. He also noted that there is a bill concerning post-retirement employment by municipal and state retirees seeking work as substitute teachers, which would have minimal fiscal impact.

#### **IV. Executive Director's Report**

Director Karpinski apprised the Board that they were in possession of the May 2016 *Pension Application Processing Report*, the June 3, 2016 Disability Subcommittee Report, a presentation for the TIAA 401(a) Fee Structure, two Gabriel, Roeder, Smith and Company (GRS) studies—one relating to *Actuarial Analysis of the Article 12 for State Police Article 12* and the other on the *Actuarial Analysis --Central Coventry Fire District Missed Contribution Payback Analysis*.

Director Karpinski updated the Board that the new system is up and running as of Monday, June 6<sup>th</sup>.

He then apprised the Board that the draft recommendations for the Governance study from Funston Advisory Services (FAS) will be provided to the Board shortly for their review. He asked that the Board provide comments by June 17<sup>th</sup>.

Director Karpinski updated the Board on the “*Report of Contributions*” delinquency report in the Board book. He noted that additional agencies are highlighted only due to their not having been able to post payrolls to ERSRI between May 10 and June 6<sup>th</sup>.

Director Karpinski apprised the Board that the Procurement Subcommittee will meet on Thursday, June 16, 2016 at 9:30 a.m. to review the received actuarial proposals. He said there have been 4 bids received; namely, Gabriel Roeder Smith and Company, Cheiron, The Segal Company and Cavanaugh Macdonald Consulting, LLC. The Subcommittee will narrow down its recommendations, and the Director said finalists will thereafter be presented to the Board for its consideration. The final vote will be at the July Board meeting for a final approval.

Treasurer Magaziner took the opportunity to thank and congratulate Director Karpinski, his staff and the Retirement System for their efforts over the past couple of years culminating with the “go-live” Morneau Shepell project.

Director Karpinski apprised the Board that the discussion on the agenda regarding the *Central Coventry Fire District (CCFD) Request to Amortize Unpaid Employer Contributions* should be considered in executive session. Attorney Robinson said a motion to convene into executive session would be in order pursuant to Rhode Island General Laws section §42-46-5 (a) (2) as the request made by the Central Coventry Fire District (CCFD) implicates potential and pending litigation involving the Retirement Board.

A motion was made by John P. Maguire and seconded by Paul L. Dion pursuant to R.I.G.L. §42-46-5(a)(2) to convene the Board in executive session to discuss the matter listed on the agenda involving Central Coventry Fire District (CCFD)’s request to amortize unpaid employer contributions, as the request implicates potential and pending litigation involving the Retirement Board.

A roll call was taken to enter into Executive Session, and the following members were present and voted Yea: Treasurer Seth Magaziner; Vice Chair William B. Finelli; Daniel L. Beardsley; Mark A. Carruolo; Andrew Marcaccio, Esq., designee for Michael DiBiase; Paul L. Dion, Ph.D.; Thomas M. Lambert; John P. Maguire; Joanne A. Matisewski; Thomas A. Mullaney; Claire M. Newell; Jean Rondeau and Dr. Laura Shawhughes. It was unanimously

**VOTED: To convene the Board in Executive Session pursuant to Rhode Island General Laws section §42-46-5 (a) (2) to discuss the Central Coventry Fire District (CCFD)’s request to amortize unpaid employer contributions.**

**[Executive Session]**

The Board thereafter convened in executive session.

**[Return to Open Session]**

Upon returning to open session, Board Counsel Michael P. Robinson noted for the record that three unanimous votes had been taken in Executive Session.

Attorney Robinson said that in accordance with RIGL §42-46-4 (b), the Board unanimously voted to keep all votes taken in executive session regarding the CCFD’s request to amortize unpaid employer contributions confidential, so as to not jeopardize any strategy, negotiation or investigation undertaken pursuant to discussions conducted

under RIGL §42-46-5 (a). The second motion was made by Jean Rondeau and seconded by John P. Maguire, to seal the executive session minutes pursuant to R.I.G.L. §42-46-5(a)(2), as the executive session discussions involved confidential attorney client communications regarding pending and potential litigation involving the Retirement Board and the Central Coventry Fire District. The third motion was made by Claire M. Newell and seconded by Jean Rondeau to exit executive session and reconvene in open session.

### **Discussion and Recommended Adoption of Trust Agreement for Non-Contributing State Police**

Director Karpinski said this matter involves enactment of a Trust for the Non-Contributing State Police. He said a bill was enacted in the 2015 legislative session as part of the Google settlement which netted approximately \$230 million to the State, of which \$45.0 million has been allocated for use by the State Police. The settlement provided an opportunity to reduce the amount of the unfunded liability attributable to the retirement benefits for members of the State Police hired on or before July 1, 1987.

Director Karpinski said that given where the language was added in the State Police statute, it is similar to the Judges plan that added the 7 non-contributing Judges in 2012. In that setup, a trust was created that was approved by the Board at the June 2012 Board meeting. The Director said the only people that are in the system are retirees and beneficiaries of Troopers appointed before July 1, 1987. He said that as before, a bank account will be established with the Bank of New York, which will invest the \$16 million yearly contributions.

Treasurer Magaziner said establishing the Trust and prefunding the system over the life of this plan based on GRS's calculations saves the State \$180 million. The Treasurer said it may be a bit more upfront cost, but in the long term, the savings are quite beneficial.

Mr. Mullaney compared this to when North Providence received similar money where they deposited a large portion of it into their pension fund. The State requested the State Police use some of their funds for the same purpose which was approved by Colonel O'Donnell. He said the request was made last year for the Department of Justice to approve the use of funds and it would now be effective July 2016. He also said that the funding for the State contribution is in the budget for FY2017.

Mr. Dion asked if this impacts the State Police COLA in retirement. The Director affirmed that the "pay-as-you-go" members were impacted with the same changes enacted in RIRSA particularly the COLA. Mr. Dion then asked if their current "pay-as-you-go" members are reported into the unfunded liability of the existing State Police Trust, and Director Karpinski said no.

On a motion by Mark Carruolo and seconded by Claire M. Newell, it was unanimously

**VOTED: To adopt the Trust Agreement for the Non-Contributing State Police Trust as Presented.**

## **Presentation and Discussion on Defined Contribution Plan (TIAA) Administrative Fees**

Treasurer Magaziner discussed with the Board the concerns presented to him on the \$40 administrative fee with the Defined Contribution Plan (DC Plan) at TIAA. He said a comparison of the \$40 administrative annual fee with account maintenance fees with a private sector 401 (k) or similar plan will provide clarity. The Treasurer said Director Karpinski will be providing the report as well as Kimberly Shockley, Associate Director of the College and Retirement Savings Plans.

Director Karpinski noted the comparison of the average 401(k) and money saving features when investing in the TIAA 401 (a) plan. He said an average 401(k) plan can have three layers of fees which are generally tied to asset size, namely: plan administration fees, investment fees and individual services fees which can include separate fees for recordkeeping, furnishing statements, toll-free telephone numbers and investment advice.

He said the RI TIAA 401(a) has two layers of fees namely; a plan administration flat fee which does not grow with assets (plan becomes more cost-effective over time) that includes investment advice, toll-free numbers and all other non-investment expenses. This fee is waived for members earning less than \$35,000 per year. The second layer is investment fees that depend on the investment options selected (most range from 0.04-0.15% and mostly low-cost index funds).

Ms. Shockley said she and her team manage the relationship with the 401(a) vendor TIAA, who is obligated as part of their contract to both reach out to the members with information, and be available for one-on-one meetings throughout their career. Ms. Shockley said the goal this year was to make sure that members understand the financial planning advice they are entitled to based on their relationship with TIAA. Ms. Shockley noted that there are certified financial planners on staff which is a large asset to the members.

Ms. Shockley discussed how TIAA is reaching out and indicated that in the 1<sup>st</sup> quarter of 2016 TIAA attended 9 benefits fairs with an attendance total of 655 members, meetings with 75 individuals in one-on-one meetings and 11 advisory services meetings for those members looking for more extensive financial planning beyond the one-on-one meetings. Ms. Shockley said her team is meeting bi-weekly with TIAA to be sure meetings are happening and being attended. She welcomed feedback and said she received feedback from Mr. Beardsley representing the League of Cities and Towns as well as from Ms. Newell representing RIDE where TIAA did reach out to provide their services.

Treasurer Magaziner summarized for the Board his intentions for having this discussion on today's agenda. His main request for both Director Karpinski and Ms. Shockley was to show how the \$40 administrative fee of the 401(a) compares with the cost of an average 401(k) or participant direct retirement plans.

The Treasurer noted in comparing this 401(a) to a private sector for this group of members, the fee is quite low. He noted the hidden fees are usually combined in the performance numbers in 401(k) investments which are not visible to the investor.

Mr. Beardsley, representative of the League of Cities and Towns, was pleased with the low-cost flat fee of TIAA as he compares it to many outside companies. He said having a flat fee is such a benefit and extremely reasonable. He noted that all the evaluation



forms from the members who attend the sessions say their knowledge has grown of the company who manages their money.

Mr. Mullaney asked if the \$35,000 is fixed, and Director Karpinski said it is indexed using the COLA formula provided in statute.

Mr. Dion noted that TIAA's 401(a) DC Contribution Plan is a 5% mandatory contribution with a 1% match. Mr. Dion felt this is a very weak match by the employer not to mention those members with 20+ years of service who are unable to move their money outside of the fund unless they terminate from employment. Mr. Dion then asked if any change to this would require a statutory change. Director Karpinski said the fee structure is not statutory.

Mr. Maguire asked if the Retirement Board will be selecting a vendor when TIAA's contract expires. Director Karpinski said it is the SIC by statute who hires the vendor. Treasurer Magaziner said communication and feedback with the SIC would be advantageous.

Ms. Newell thanked Ms. Shockley and TIAA for her outreach to the RI Department of Education.

Ms. Newell asked Director Karpinski about the status of the private letter ruling to the IRS, and he said it is finalized and believes it will be transmitted in the next week.

## **V. Administrative Decisions**

*None this Month*

## **VI. Approval of the May Pensions as Presented by ERSRI**

On a motion by William B. Finelli and seconded by John P. Maguire, it was unanimously

**VOTED: To approve the May pensions as presented.**

## **VII. Legal Counsel Report**

Attorney Robinson did not have any specific report.

## **VIII. Committee Reports**

### **Disability Subcommittee:**

Director Karpinski apprised the Board members that he provided them an electronic version of the Disability Subcommittee's vote count from its recent meeting, as well as a report of the medical ailment the member claimed in the disability application to the Disability Subcommittee. He said he will continue to email this to the Board following Subcommittee meetings. The Director reminded the Board this monthly document is confidential. Treasurer Magaziner reminded the Board that if questions should arise regarding the Subcommittee's report, care should be taken to determine if discussion of a specific member's medical condition should be held in open or closed session. He welcomed any comments or suggestions from the Board.

The Disability Subcommittee then recommended the following actions on disability applications for approval by the full Board as a result of its meeting on Friday, June 3, 2016:

Name	Membership Group	Type	Action
1. Daniel Magnone	State	Accidental Reconsideration;	Accidental—Withdrawn; Ordinary--Approved
2. Donald Ditusa	Municipal	Accidental	Postpone
3. Daniel Nuey	Municipal	Accidental	Deny
4. Emile Ziadeh	State	Accidental Reconsideration	Motion to remand. Declined to rule on motion to remand.
5. John Carney	State	Accidental	Appealing 50%. Previous approval of 50% was overturned. Approved for 66 2/3% (Retired); motion to accept the report
6. Joanne Decurtis	Teacher	Ordinary	Approved
7. Bruce Wright	Municipal	Ordinary	Approved
8. Deborah Coury	Teacher	Ordinary	Approved
9. Marie-Elaina Dimaio	Teacher	Ordinary	Approved

On a motion by William B. Finelli and seconded by John P. Maguire, it was unanimously **VOTED: To approve the recommendation of the Disability Subcommittee meeting of Friday, June 3, 2016 on items 1 and 5.**

Claire M. Newell recused herself from the votes on numbers 1 and 5.

On a motion by William B. Finelli and seconded by Thomas A. Mullaney, it was unanimously

**VOTED: To approve the recommendation of the Disability Subcommittee meeting of Friday, June 3, 2016 on item 9.**

John P. Maguire recused himself from the vote on number 9.

On a motion by William B. Finelli and seconded by John P. Maguire, it was unanimously

**VOTED: To approve the recommendation of the Disability Subcommittee meeting of Friday, June 3, 2016 on items 2, 3, 4, 6, 7 and 8.**

Treasurer Magaziner announced that he wanted to extend congratulations and thanks to Chief of Staff Jeffrey Padwa as he will be returning to the private sector and that his replacement will be Patrick Marr.

## **IX. Adjournment**

There being no other business to come before the Board, on a motion by Jean Rondeau and seconded by John P. Maguire, the meeting adjourned at 11:30 a.m.

Respectfully submitted,

**Frank J. Karpinski**

Executive Director